

RULE 143
REQUIREMENTS FOR IRREVOCABLE DEDICATION CLAUSE
AND DISSOLUTION CLAUSE
FOR ORGANIZATIONAL CLEARANCE CERTIFICATE
FOR WELFARE EXEMPTION

(a) DEFINITIONS. For the purposes of this regulation:

- (1) “Dissolution clause” means a statement in the organizational documents of a qualifying organization that upon the liquidation, dissolution, or abandonment of the qualifying organization, the exempt property will not inure to the benefit of any private person except another qualifying organization.
- (2) “Irrevocable dedication clause” means a statement in the organizational documents of a qualifying organization that the property is irrevocably dedicated exclusively to one or more qualifying purposes.
- (3) “Organizational document” means the articles of incorporation of a corporation, or the articles of organization of a limited liability company, or the bylaws, articles of association, constitution or regulations of a community chest, fund, or foundation, or corporation chartered by an act of Congress.
- (4) “Qualifying organization” means a community chest, fund, foundation, nonprofit corporation, or eligible limited liability company, organized and operated exclusively for religious, hospital, scientific, or charitable purposes. Charitable purposes include educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).
- (5) “Qualifying purpose” means a religious, hospital, scientific or charitable purpose. Charitable purposes include educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).

(b) IN GENERAL. In order to qualify for the welfare exemption provided in Revenue and Taxation Code section 214, among other requirements specified therein, the property owned by a qualifying organization must be irrevocably dedicated exclusively to one or more qualifying purposes, and upon the liquidation, dissolution, or abandonment of the qualifying organization, the property will not inure to the benefit of any private person except another qualifying organization. In order to satisfy these requirements, the organizational document of the qualifying organization must contain both an irrevocable dedication clause, which meets the requirements set forth in subdivision (c) below, and a dissolution clause, which meets the requirements set forth in subdivision (d) below.

(c) IRREVOCABLE DEDICATION CLAUSE. Property is deemed to be irrevocably dedicated exclusively to one or more qualifying purposes provided that a qualifying organization’s organizational document contains a statement that irrevocably dedicates its property exclusively to one or more qualifying purposes.

1 (1) If the organization's charitable purpose is educational purposes as defined in Revenue and
2 Taxation Code section 214, subdivision (j), the irrevocable dedication clause shall state that
3 the property is irrevocably dedicated to educational purposes as defined in section 214, or
4 that the property is irrevocably dedicated to charitable and educational purposes meeting the
5 requirements of Revenue and Taxation Code section 214.

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7 (2) If the irrevocable dedication clause states that the property is dedicated to purposes other
8 than the qualifying purposes, the property does not qualify for the welfare exemption.

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10 (3) If the irrevocable dedication clause states that the property is irrevocably dedicated to a
11 "public" or "public benefit" purpose, the property does not qualify for the welfare
12 exemption.

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14 (4) The following examples illustrate irrevocable dedication clauses as defined in subdivision
15 (a)(2) above:

16
17 Example No. 1: The property owned by this organization is irrevocably dedicated to
18 charitable, scientific, hospital, or religious purposes.

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20 Example No. 2: The property owned by this organization is irrevocably dedicated to
21 charitable and educational purposes meeting the requirements of Revenue and Taxation
22 Code section 214.

23
24 Example No. 3: The property owned by this organization is irrevocably dedicated to
25 educational purposes as defined in Revenue and Taxation Code section 214, subdivision (j).

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27 Example No. 4: The property located in California owned by this organization is irrevocably
28 dedicated to charitable, scientific, hospital, or religious purposes.

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30 Example No. 5: The property owned by this organization is irrevocably dedicated to
31 charitable purposes within the meaning of section 501(c)(3) of the Internal Revenue Code.

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33 Example No. 6: The property of this corporation is irrevocably dedicated to charitable
34 purposes and no part of the net income or assets of this corporation shall ever inure to the
35 benefit of any director, officer or member thereof or to the benefit of any private person.

36
37 **(d) DISSOLUTION CLAUSE.** In order to qualify for the welfare exemption, the qualifying
38 organization's organizational document must contain a dissolution clause, which specifically
39 states that its property will be distributed to another qualifying organization entity upon its
40 liquidation, dissolution, or abandonment.

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42 (1) If the dissolution clause in the organizational document designates a specific organization to
43 receive the distribution, it must state that the designated organization is a qualifying
44 organization that is organized and operated for a qualifying purpose.

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46 (2) The dissolution clause of the qualifying organization may provide that, upon the liquidation,
47 dissolution, or abandonment of the qualifying organization, the property will inure to the
48 benefit of a governmental entity.

1
2 (3) The following examples illustrate dissolution clauses as defined in subdivision (a)(1) above:
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4 Example No. 1: Upon the liquidation, dissolution or abandonment of this organization, its
5 assets, remaining after payment or provision of payment of all debts and liabilities of this
6 organization, shall be distributed to an organization organized and operated for a charitable,
7 scientific, hospital, or religious purpose meeting the requirements of Revenue and Taxation
8 Code section 214.
9

10 Example No. 2: Upon the liquidation, dissolution or abandonment of this organization, the
11 proceeds or assets related to property located in California, remaining after payment or
12 provision of payment of all debts and liabilities of this organization, shall be distributed to
13 an organization organized and operated for a charitable, scientific, hospital, or religious
14 purpose meeting the requirements of Revenue and Taxation Code section 214.
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16 Example No. 3: Upon the liquidation, dissolution or abandonment of this organization, its
17 assets, remaining after payment or provision of payment of all debts and liabilities of this
18 organization, shall be distributed to an organization organized and operated exclusively for
19 charitable and educational purposes meeting the requirements of Revenue and Taxation
20 Code section 214.
21

22 Example No. 4: Upon the liquidation, dissolution or abandonment of this organization, its
23 assets, remaining after payment or provision of payment of all debts and liabilities of this
24 organization, shall be distributed to an organization organized and operated exclusively for
25 educational purposes meeting the requirements of Revenue and Taxation Code section 214,
26 subdivision (j).
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28 Example No. 5: Upon the dissolution or winding up of the corporation, its assets remaining
29 after payment, or provision for payment, of all debts and liabilities of this corporation shall
30 be distributed to a nonprofit fund, foundation or corporation which is organized and
31 operated exclusively for charitable purposes and which has established its tax exempt status
32 under section 501(c)(3) of the Internal Revenue Code.
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34 Example No. 6: Upon the dissolution or winding up of the organization, its assets remaining
35 after payment or provision of payment of all debts and liabilities of this organization, shall
36 be distributed to a nonprofit organization which is organized and operated exclusively for
37 charitable purposes.
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39 **(e) FAILURE TO MEET REQUIREMENTS.**
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- 41 (1) If, at the time of filing, the applicant's organizational document does not contain an
42 irrevocable dedication clause and/or a dissolution clause which meets the requirements of
43 subdivisions (c) and (d), respectively, the organization does not qualify for the
44 Organizational Clearance Certificate under Revenue and Taxation Code section 254.6.
45 However, the applicant may be issued an Organizational Clearance Certificate for the fiscal
46 year for which the Organizational Clearance Certificate is requested on its application if the
47 applicant amends its organizational document to meet the requirements of subdivisions (c)

1 and (d) and submits a certified copy of the amendment to the State Board of Equalization by
2 the next succeeding lien date.

3
4 (2) If, at the time of filing, applicant's organizational document did not contain an irrevocable
5 dedication clause and/or a dissolution clause which meets the requirements of subdivisions
6 (c) and (d), respectively, and the applicant amends its organizational document to meet the
7 requirements of subdivisions (c) and (d) after the next succeeding lien date, an
8 Organizational Clearance Certificate may be issued under Revenue and Taxation Code
9 section 254.6 for the fiscal year following the lien date by which the applicant amends its
10 organizational document and submits a certified copy of the amendment to the State Board
11 of Equalization.

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13 (3) If the applicant amends its organizational document, a certified copy of the amendments
14 must be provided to the State Board of Equalization.

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16 (4) The county assessor may not approve a welfare exemption claim until the State Board of
17 Equalization has issued an Organizational Clearance Certificate under Revenue and
18 Taxation Code section 254.6.

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21 Authority: Section 15606, Government Code

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23 Reference: Sections 214, 214.01, 254.5, and 254.6, Revenue and Taxation Code.

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25 Rules/143/Rule 143